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Indonesia

Grain and Feed

Wheat Update (September 2002)

2002

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Report Highlights:
Indonesia's total wheat imports are expected to increase by 10 percent in MY2002/03, to 5 MMT reflecting increasing demand for noodles and bakery products. Post estimate for imports of wheat/flour in MY2001/02 is increased to 4.8 MMT. Consumption in both years is also revised upward.

The lack of a GSM 102 credit program for Indonesia in FY02 has negatively impacted U.S. wheat exports to Indonesia - making it very difficult for U.S. wheat to compete with lower priced suppliers.

Includes PSD changes: Yes
Includes Trade Matrix: No

Unscheduled Report
Jakarta [ID1], ID

Executive Summary

Table of Production, Supply and Demand for Wheat (including wheat flour)

PSD Table						
Country:	Indonesia					
Commodity:	Wheat					
	Revised	2000	Preliminary	2001	Forecast	2002
	Old	New	Old	New	Old	New
Market Year Begin		07/2000		07/2001		07/2002
Area Harvested	0	0	0	0	0	0
Beginning Stocks	1100	221	1000	831	800	926
Production	0	0	0	0	0	0
TOTAL Mkt. Yr. Imports	4069	4864	4000	4800	4000	5000
Jul-Jun Imports	4069	4864	4000	4800	4000	5000
Jul-Jun Import U.S.	777	840	0	350	0	350
TOTAL SUPPLY	5169	5085	5000	5631	4800	5926
TOTAL Mkt. Yr. Exports	49	4	50	24	0	25
Jul-Jun Exports	49	4	50	24	0	25
Feed Dom. Consumption	0	140	0	140	0	140
TOTAL Dom. Consumption	4120	4250	4150	4681	4150	5150
Ending Stocks	1000	831	800	926	650	751
TOTAL DISTRIBUTION	5169	5085	5000	5631	4800	5926

Unit in 1,000 Metric Tons.
Note: Data in the "Old" column reflects FAS/W data. For Post's previous PS&D refer to report ID2003.
Note: Table includes data for unprocessed wheat and wheat flour - converted into grain equivalent.

Policy

The high volume of imported wheat flour frustrates the local wheat milling industry due to its low price. The Association of Wheat Flour Producers (APTINDO-Asosiasi Produsen Tepung Terigu Indonesia) petitioned the Government of Indonesia (GOI) to impose an anti-dumping tariff on wheat flour imports. Anti-dumping issues on wheat flour have been a focus of discussion between the government (including the Anti-Dumping Committee) and the industry followed by the formation of Anti-Dumping Tariff Team for Wheat Flour (July 24, 2002). The wheat milling industry also indicated that little of the imported flour is fortified and does not meet the Indonesian National Standard (SNI-Standard Nasional Indonesia) No. 01-3751-2000/Rev. 1995.

This standard requires wheat flour to be fortified with iron, zinc, vitamin B1, B2, and folic acid. According to the GOI Ministry of Industry and Trade decree No. 322/MPP/Kep/11/2001 dated November 20, 2001, the implementation of SNI for flour was effective February 2, 2002, in order to enhance the nutritional value of the product.

Based on the current Indonesia customs and tariff regulations (2002), both wheat grains and flour can be imported by general importers (IU-Importir Umum). Wheat grain imports are subject to zero duty and 10 percent value added tax which can be reimbursed when the producer sells the flour. Wheat grains are also subject to 2.5 percent withholding tax (for traders) or an average of 30 percent of company income (for millers).

Wheat flour is currently subject to a zero percent import duty and 10 percent value added tax plus 2.5 percent withholding tax. The proposal for an anti dumping tariff for wheat flour was sent by the Anti-Dumping Committee (KADI-Komite Anti-Dumping Indonesia) to the Ministry of Industry and Trade. The Ministry of Industry and Trade rejected that proposal and recommended a flat 5 percent duty for wheat flour from all countries. The Ministry of Finance has not yet announce a decision.

Trade

Considering the growing demand (estimated by the industry at 10% per annum) from the wheat and wheat related industries, particularly noodles and bakery products, Post increased the estimate for total wheat imports (including wheat flour), from 4.5 MMT to 4.8 MMT for MY2001/02 and the forecast for MY2002/03 from 4.5 MMT to 5.0 MMT.

Wheat

Post sources suggest that nearly 350,000 MT of U.S. wheat (approximately 7 percent market share) will be imported in MY2001/02, significantly lower than previous estimate of 500,000 MT. Due to the many delays which took place after the September 11 tragedy, importers were reluctant to place orders for U.S. product. In addition, competition from other suppliers who offered lower prices caused U.S. wheat imports to fall. For the first nine months (July-April) of MY 2001/2002, India, Canada, and Australia enjoyed market shares of 6 percent, 11 percent and 60 percent respectively.

Another major factor is the difficulty for traders and small millers to get trade financing and lack of a USDA GSM-102 credit program.

Wheat Flour

Total flour imports during the first nine months (July-April) of MY2001/02 reached 232,000 MT (equivalent to 309,000 MT of wheat), valued at US$ 45.5 million, compared to 294,293 MT (392,000 MT of wheat), valued at US$ 52.9 million imported during the same period in MY2000/01. The decline in imports for both marketing years was primarily due to competition and lower prices for locally produced wheat flour. In addition, locally produced flour meets the GOI's SNI regulations (explained in Policy Section), compared to imported wheat flour which has difficulties meeting the GOI's standards. During the first nine months of MY2001/02, China, Australia, and United Arab Emirate dominated Indonesia's flour import market with market shares of 25, 24 and 9 percent respectively. During these periods zero imports of wheat flour are estimated from the United States. Post estimates that total flour imports for MY2001/02 and MY2002/03 will reach 300,000 MT (equivalent to 400,000 MT of wheat).

Most exports of Indonesian flour are carried out by Indonesia's largest mill, mainly to Singapore and a small amount to Malaysia and Japan. Exports of Indonesian wheat flour for MY2001/02 are likely to reach 18,000 MT (equivalent to 24,000 MT of wheat).

Market Constraints

Milling industry representatives indicate that flour smuggling is a major constraint, which is estimated at approximately 300,000 MT. This smuggled flour hampers sales of locally produced flour by pushing prices down. In addition, there are also strong indications of false import documents, i.e., under invoicing and false declarations. Law enforcement has not been implemented efficiently at Customs. Unfair trading has also been carried out by traders by mixing the cheap imported flour with local flour and selling it as a local brand (they sell it at the higher price but in fact it has lower quality).

Prices

Wheat

Current average U.S. wheat prices are US$ 157.5/MT (CNF), which are approximately 5 percent higher compared to the average U.S. wheat price (US$ 150/MT) in January, 2002. Please see table below for a comparison of wheat prices for key U.S. competitors. Industry contacts indicate that world wheat prices are expected to increase further, while wheat flour prices declined as the local currency started to strengthen.

IMPORTED WHEAT PRICE RANGES

Country of Origin	January-August 2002 (CIF Price)
U.S.	US$ 143 - 163/MT
Australia	US$ 123 - 194/MT
Canada	US$ 128 - 214/MT
India	US$ 112 - 125/MT
China	US$ 110 - 115/MT

Source: Post industry sources.
Note: The above price information includes insurance, interest fee, L/C opening fee, and losses during discharging. Prices are applied to various types and qualities of wheat.

Wheat Flour

For price comparison, the average of ex-factory (factory-to-distributor) flour prices for August and January 2002 are summarized as follows: high protein flour (Rp. 3,197/kilogram vs. Rp. 2,783/kilogram); medium protein flour (Rp. 2,653/kilogram vs. Rp. 2,471/kilogram); and, low protein flour (Rp. 2,431 vs. Rp. 2,105/kilogram). The prices quoted include the value added tax of 10 percent. Retail prices of flour are approximately 20 percent higher than ex-factory prices.

IMPORTED WHEAT FLOUR PRICE RANGES

Country of Origin	January-August 2002 (CIF Price)
China	US$ 200 - 211/MT
Australia	US$ 200 - 240/MT
United Arab Emirate	US$ 195 - 200/MT
Belgium	US$ 200 - 210/MT

Source: Post industry sources.

Consumption

Indonesia’s noodle and bakery push-carts are growing (Indonesia is one of the world’s largest markets for instant noodles). Post estimates that domestic consumption for wheat will grow approximately 10 percent per annum. The increasing consumption of wheat products is a result of people moving slowly towards consumption of easy-to-prepare products. Furthermore, flour prices are also comparable or lower than rice prices - a staple food for most of the population. As a result of these developments, the estimate of total domestic consumption of wheat for MY2001/02 has been revised from 4.2 MMT to 4.7 MMT, and for MY2002/03 consumption is forecast to reach 5.1 MMT, revised upward from Post’s previous report of 4.4 MMT.

Approximately 60 percent of wheat flour is used by Indonesia’s noodle industry. However, there has been rapid growth (approximately 20 percent per annum) in the bakery/biscuit industries. A significant change has taken place in Indonesian diet patterns -- from big cities to villages -- where people are not substituting rice for wheat products, but instead are adding more and more wheat products (such as noodles and bakery goods) to their diet.

Stocks

Carry over stocks include all unprocessed wheat (at mills, in vessels and traders) and also wheat flour (converted into grain equivalent). For MY2001/02 ending stocks have been decreased significantly from post’s previous estimate of 2.2 MMT in April 2002, to 926,000 MT. Post has adjusted its end stock figures for MY2001/02 and MY2002/03 to best reflect actual stocks held in the country. These changes are based on industry sources.

In addition, ending stocks figures for MY2000/01 and MY1999/00 have been adjusted to reflect significant reductions in milling capacities (to approximately 25% per annum), due to

Indonesia's economic crisis, as well as weak currency levels.

Exchange Rates

Exchange Rate (Rp./1US$) on Period Month Ending Basis												
	Jan	Feb	Mar	Apr	May	Jun	Jul	Aug	Sep	Oct	Nov	Dec
1997	2387	2403	2418	2443	2458	2450	2528	2190	3350	3700	3740	5700
1998	13513	9377	8740	8211	10767	15160	13850	11700	11314	9142	7755	8100
1999	9419	8992	8778	8632	8179	6750	6989	7736	8571	6949	7439	7161
2000	7414	7517	7598	7988	8728	8742	9055	8370	8891	9483	9524	9385
2001	9488	9914	10460	12117	11423	11436	9744	9045	9696	10358	10476	10450
2002	10383	10222	9655	9316	8785	8730	9108	8893				
Source: Central Statistics Agency (BPS-Badan Pusat Statistik) and Business Indonesia Daily Newspaper. Note: - March 2002 exchange rate is quoted for March 28, 2002 - June 2002 exchange rate is quoted for June 28, 2002 - August 2002 exchange rate is quoted for August 28, 2002 - BPS data available up to Feb 2002												

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